HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Saguenay CMA

CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2009

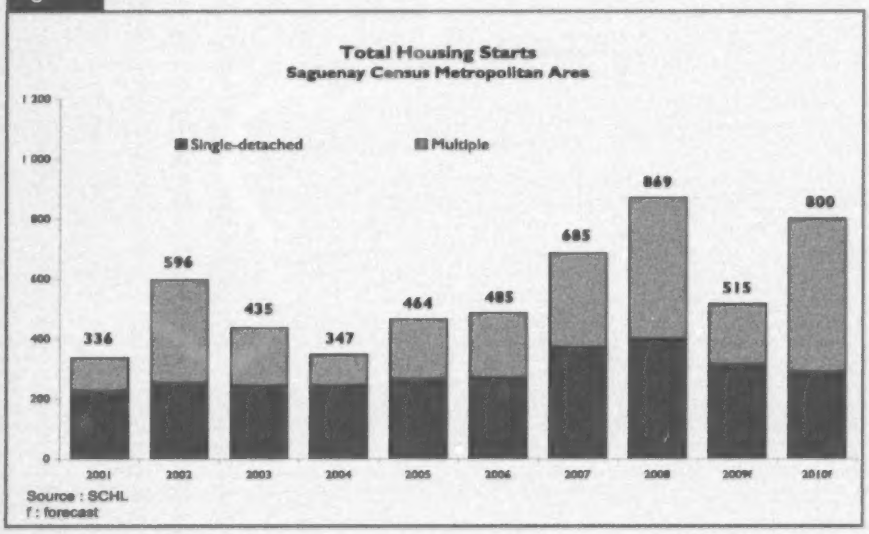
Saguenay housing starts to pick up in 2010

The latest housing market outlook shows that the area should end 2009 with a 41-per-cent decrease in starts, for a total of 515 units. However, the high level of activity registered in 2008 will almost be reached again in 2010, thanks to the rental retirement home market segment. In fact, 800 starts are expected in 2010[1].

Variable effects of the economic slowdown and recovery outlook

The Saguenay–Lac-Saint-Jean economy was not spared by the effects of the global economic slowdown, which effectively reduced demand for exports. As well, it can be seen that

Figure 1



[1] The forecasts provided in this document are based on the information available as at October 1, 2009.

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the current conditions did not have the same impact on employment in the Saguenay census metropolitan area (CMA). Between 2007 and 2008, the employed population decreased by 1.6 per cent in the CMA but by 5 per cent in the rest of the Saguenay–Lac-Saint-Jean area. In the first three quarters of 2009, the situation was similar. The greater presence of the consumer, business, health, education, research and government service sectors has helped keep the labour market more stable in the Saguenay CMA. In short, thanks to a gradual economic recovery, we expect that the Saguenay CMA will end 2009 with a small 0.3-per-cent decrease in employment, to a total of 68,900 workers.

In 2010, several factors will contribute to employment growth in the non-residential construction sector. In the residential sector, as well, renewed activity will create jobs. Overall, the employed population in the Saguenay CMA should therefore rise by 1 per cent in 2010, to 69,600 workers, surpassing the level reached in 2008.

Demographics still favourable and changing

One of the demographic factors having a direct impact on the housing market is migration, and the Saguenay CMA has seen an improvement in net migration for the past few years. A more dynamic labour market with good prospects for the future and coordination among public stakeholders to promote the area to young people have contributed to a progressive reduction in the number of individuals leaving the area. For 2008, there should be a net migration deficit of 700 people, compared to the net loss of 852 people estimated by Statistics Canada for 2007. Given the economic uncertainty, the migration flows will be less favourable in 2009, with a net result of 800 people leaving the area. In 2010, the economic recovery and a more favourable labour market should contribute to a return to the 2008 net migration level. As well, private household formation is another fundamental factor influencing housing demand. Thanks to longer life expectancies, and as a result of separations and divorces, more than 300 households will be formed in 2009 and also in 2010[2]. In addition, this gain will come from households whose primary maintainer is 55 years or older. The specific needs and preferences of these households should also increasingly affect the housing market.

Mortgage rates to rise slightly in 2010

The Bank of Canada cut the target for the overnight rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. The Bank has committed to keeping this rate at 0.25 per cent through the middle of 2010 unless inflationary pressures warrant an increase. Mortgage rates have fallen over the course of 2009 but are now expected to remain relatively stable for the rest of the year. Posted mortgage rates will gradually increase through 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate will be in the 3.50-4.25 per cent range, while three- and five-year posted mortgage rates are forecast to be in the 4.50-6.00 per cent range.

Single-detached houses to record a net drop in 2009

Following two exceptional years on the housing market in the area, single-detached home construction will progressively return to levels more compatible with the long-term demand on the part of households (that is, closer to the household formation rate, as mentioned earlier). What does this return mean? First, all the indicators reflected a good performance of the labour market starting in 2004. The labour force participation rate (activity rate) and the ratio of employment to population (employment rate) were high, while the unemployment rate slid from 11 per cent in 2004 to 8.5 per cent in 2008. In addition to creating wealth for households, this strong labour market also helped keep more workers in the area. The migration deficit therefore decreased rapidly and housing demand rebounded, such that single-detached home starts reached a peak in 2008. Then, the economic slowdown caused housing demand to decline. Still, the low mortgage rates are helping to keep construction levels high, as they are encouraging people to buy a first—or another—home. Overall, we expect that there will be 315 new single-detached houses in 2009, for a drop of 21 per cent from 2008. In 2010, the slowdown will continue but will be less significant, with 290 starts expected (-8 per cent).

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[2] Source : Institut de la statistique du Québec, Perspectives démographiques du Québec et de ses régions, 2006-2056, 2009 edition.

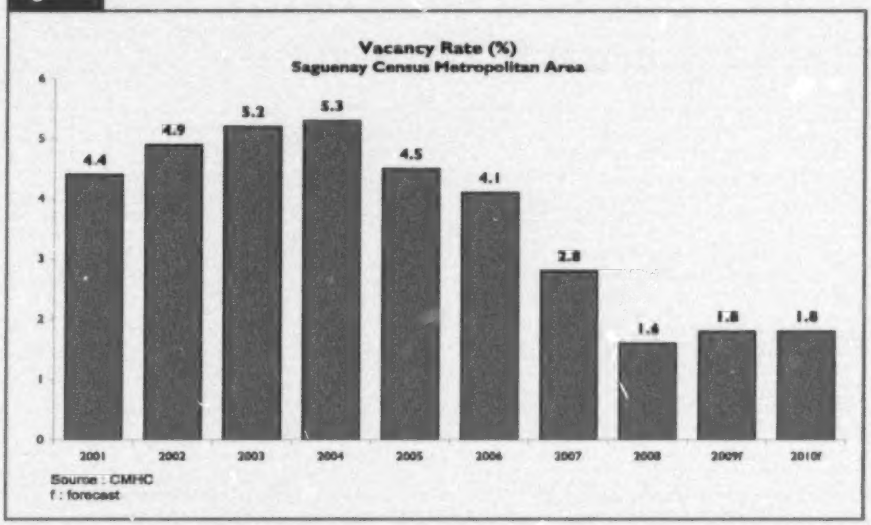
Multiple-unit housing in demand

In the multiple-family housing segment, while many seniors' housing projects should get under way in 2010, for a total of more than 200 new units, the level of construction will not be the same for traditional rental housing. In fact, about 100 such units will be started in 2009, and slightly more in 2010. In this regard, it should be noted that rising construction costs are increasingly limiting the ability of builders to offer new units at rents that would be competitive with the rates charged for existing units.

As well, a review of the starts survey reveals that interest in semi-detached and row houses has decreased slightly. We forecast that about 20 units will be started in 2009, and another 20 in 2010. However, recent trends show that duplexes and condominiums are more in demand. Duplexes meet part of the demand for rental housing and have the advantage of providing an income to the homeowners, favouring homeownership among households seeking an alternative. In all, foundations will be laid for 60 duplex units in 2009, and this pace of construction should be maintained in 2010.

Finally, condominiums are also an interesting option for first-time buyers and also for older households wishing to lessen their maintenance burden while remaining homeowners. As the aging of the population confirms a growing potential demand for homes of this type, this market segment—although currently less present in the area—is bound to continue gaining a foothold. About 20 condominium units should be added to the housing stock both in 2009 and in 2010.

Figure 2



Rental market to stay tight

The combination of many factors suggests that the rental market is bound to stay tight in 2009 and 2010. First, traditional rental housing construction has remained stable for several years. With the good performance of the labour market, the improvement in net migration had a definite impact on the rental market, as the vacancy rate fell from 5.3 per cent in 2004 to 1.6 per cent in 2008. In recent years, though, retirement homes have increasingly drawn the interest of investors. Given that the pace of traditional rental housing construction is not bound to change significantly and that rental units in duplexes remain rather limited, migration movements will affect the state of the rental market. With the economic slowdown, the Saguenay labour market stagnated in 2009. A slight deterioration in net migration this year will cause the vacancy rate to rise to 1.8 per cent in October 2009, from 1.6 per cent a year earlier. Since employment growth is expected to resume in 2010, this will maintain the pressure on the rental market and keep the vacancy rate stable, at 1.8 per cent. The new rise in demand will therefore be counterbalanced by the progressive addition of new rental housing units.

Resale market progressively easing

Despite the circumstances, the resale market will remain quite active in 2009 and 2010. However, a shaky labour market in 2008 and 2009, combined with a major price hike

totalling nearly 50 per cent between 2004 and 2008, will weaken demand for existing homes in 2009. As a result, MLS® sales should reach 1,450 units in 2009, down by 7 per cent from the level recorded in 2008. With mortgage rates still favourable for households and rising only slightly during 2010, a rental market that will stay tight, better overall affordability than on the new home market, and a more favourable labour market, there should be 1,525 existing home sales in 2010, for an increase of 5 per cent. In addition, the growth in the average price of existing homes should be less considerable than in previous years. Firstly, the price gap between existing and new homes has narrowed in recent years. In 2004, the average price of new homes was 53 per cent higher than the average MLS® price while, in 2008, this gap was only 33 per cent. Secondly, the existing home market has become less tight, as a result of a steady increase in active listings despite weaker sales, but continues to favour sellers. Between July 2008 and July 2009, the seller-to-buyer ratio for single-family homes[3] rose from about 4.5 to 1 to more than 6 to 1 (the market is balanced when this ratio is between 8 and 10 to 1). In sum, the average MLS® home price should rise to $144,000 in 2009, up by close to 4 per cent, and then to $150,000 in 2010, for an increase of more than 4 per cent.

[3] Source : Quebec Federation of Real Estate Boards, Le Baromètre MLS® du marché résidentiel, 2e trimestre 2009 (CMHC compilation). Single-family homes include single-detached, semi-detached and row houses.

Forecast Summary Saguenay CMA Fall 2009	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales	1,627	1,651	1,557	1,450	-6.9	1,525	5.2
MLS® New Listings[2]	n. a.	n. a.	n. a.	n. a.	-	n. a.	-
MLS® Average Price ($)	111,726	127,039	139,043	144,000	3.6	150,000	4.2
New Home Market							
Starts:							
Single-Detached	271	373	400	315	-21.3	290	-8
Multiples	214	312	469	200	-57.4	510	155.0
Starts - Total	485	685	869	515	-40.7	800	55.3
Average Price ($):							
Single-Detached	159,316	178,276	184,719	190,000	2.9	195,500	2.9
New Housing Price Index (% chg) (Que.)	4.4	4.2	5.0	n. a.	-	n. a.	-
Rental Market							
October Vacancy Rate (%)	4.1	2.8	1.6	1.8	-	1.8	-
Two-bedroom Average Rent (October) ($)	485	490	518	525	-	530	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.03	-	3.83	-
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.55	-	5.75	-
Annual Employment Level	70,400	70,200	69,100	68,900	-	69,600	-
Employment Growth (%)	3.2	-0.3	-1.6	-0.3	-	1.0	-
Unemployment rate (%)	8.8	8.8	8.5	9.1	0.6	8.7	-0.4
Net Migration [1]	-889	-852	-700	-800	-	-700	-

MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

(1) 2008 migration data is forecasted

(2) Source: QFREB by Centris® as of January 2009

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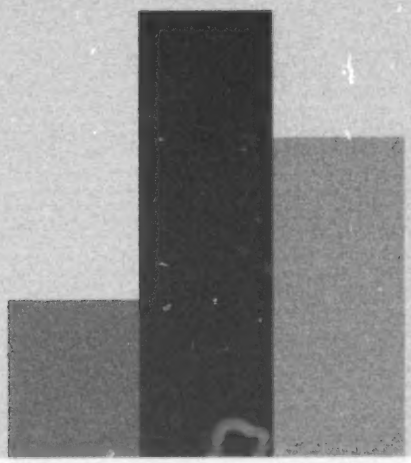

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